Global Journal of Management and Business Research
Volume 12 Issue 1 Version 1.0 January 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

The 2008 Global Financial Crisis and Its Implications in Tanzania: A Focus on Official Development Assistance (Oda)

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GJMBR Classification : FOR Code: 140207 JEL Code: G01, G15, G32

THE 2008 GLOBAL FINANCIAL CRISIS AND ITS IMPLICATIONS IN TANZANIAA FOCUS ON OFFICIAL DEVELOPMENT ASSISTANCE ODA

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Abstract - This paper is on the 2008 global financial crisis and its implications in Tanzania with a focus on Official Development Assistance (ODA). The author gives an overview of the meaning, nature, causes, impacts and possible solutions for the crisis in Tanzania in general. Informed mainly by a review of literature and experts and practitioners opinion, it is found by the author that the crisis officially started to manifest itself in September 2008 in the financial markets in the United States of America (USA). Since then it has spread not only to financial but also to the real economy to many parts of the world especially in Europe and Asia where the first round effects are rapidly being experienced. In Africa, the second round effects (bounce-on effects) are increasingly being experienced The many direct and indirect, long term and short term impacts are emanating from the global economic recession that is unfolding as a result of the crisis. There have been several strategies to deal with the crisis at macro- and micro-level in various countries. These include but are not limited to various bailout plans and stimulus packages for various economies in general and specific sectors and industries in particular

Tanzania – as is the case with many other developing countries – seems to be suffering from the second round effects of the crisis. The impacts in Tanzania so far include but are not limited to potential and actual reduced economic growth, reduced foreign currency earning as a result of reduced exports, reduced tourism, reduced remittances and reduced Official Development Assistance (ODA). All of these impacts above are likely to have many, far-reaching and profound negative implications on employment in Tanzania. Some of the implications are direct while others are indirect – both in the short- and in the long-run. Among the policy implications based on the discussions in the paper include the need to be proactive instead of being reactive in addressing the crisis. Among other things, there is a need to be vigilant as the crisis keeps on unfolding. Expansionary fiscal and monetary policies and cooperation with the global community at large and ILO in particular in the context of fighting employment effects of the crisis are important. These are but the minimum requirements in properly addressing the crisis.

I. Introduction

The 2008 global financial crisis started officially in the United States of America (USA) in September 2008 or so. It is generally manifested in the form of inadequate liquidity as a result of credit crunch in the financial markets. As a result, a recession is looming across the globe in form of a general, rapid and high decline in economic activities. The activities include production, distribution and consumption of goods and services. This form of economic turmoil was last experienced at global level during the Great Depression of the 1930s.

The crisis is increasingly resulting into inter alia, uncertain and hard social and economic times for countries across the globe. Whereas the developed countries started suffering from the first round and direct effects of the crisis, the developing ones are likely to suffer more from the second and indirect effects of the crisis. Countries with relatively weak and externally dependent financial structures like Tanzania, are struggling to recover from the shocks caused by hiking and highly volatile global and local food and fuel prices. The current financial crisis therefore is likely to fuel incidences of poverty and vulnerability in the poor countries in general and Tanzania in particular.

According to Mtango (2008), the effects of the global financial crisis have forced Tanzania to reduce its growth forecast to from 7.8% to 7.5%. Tanzania Investment Centre (TIC) has reported that FDI flow into the country will be less than $675million instead of the $750 predicted earlier in 2008. This is a reduction of 10%.

According to The Guardian (Sunday, January 4th, 2009: 1 – 2), revenues in various sectors have been reported to be highly affected by the crisis. These include a decline of exports by 44% in the cotton industry; a decline by 30% in tourism; a decline by 32% in the coffee industry; a decline by 50% in the Nile Perch industry and 22% in food prices. Taking into account the inter-sectoral linkages and multiplier effects, the negative impacts reported above will have many, many far-reaching and profound negative implications to many other sector, people and institutions involved in them directly and indirectly.

Among other things, the impacts of the crisis will have many far-reaching and profound implications in many spheres of life including social, political and economic ones. In the economic sphere among the implication of the crisis include reduced aggregate demand of goods and services both at the local and global (export) markets. The reduced aggregate demand will result into reduced production which will necessitate reduced employment and remuneration (compensation) of factor inputs including labour.

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Owners of factors of production in general and labour in particular are likely to be poorer as a result of the crisis. Another likely economic impact of the crisis is reduced Official Development Assistance (ODA) as the sources of revenue for the same from the donor countries will be reduced. Also, donors may be compelled to give less or nothing to recipient countries as the latter are obliged to address the crisis in their own countries first and may not have surplus to give in form of ODA.

The current crisis is still in its infancy stage of development. It is still taking shape and there are many unfolding issues, realities and lessons. Yet, there are many unknown issues and realities of the crisis. Among these unknown variable in the crisis include its impacts in employment, among others areas. This work focuses on the current global financial crisis and its implications on employment in Tanzania. The author gives an overview of the meaning, nature, causes, impacts and possible solutions for the crisis in general and in the context of employment in Tanzania in particular. The work is supposed to stimulate debates and take discussions and learning on the crisis into higher and newer levels.

II. Methodology

This work is mainly informed by the review and discussion of the existing and emerging literature on the crisis. It is also informed by opinions of some experts and practitioners on the ground. The literature however, is limited given the relative infancy of the current crisis globally as well as in Tanzania. It is still a relatively new research area and very few known scientific works have been done on the crisis. Most of the literature used therefore is grey. The work is also informed by a limited consultation with a few but key informants in the context of this work.

III. An Overview of the 2008 Global Financial Crisis

In this section, an over of the current global financial crisis is presented. The overview covers inter alia, the meaning, nature, causes, impacts and possible solutions for the crisis in general.

a) Meaning, Nature and Causes of the Crisis

The 2008 global financial crisis is also termed the credit crunch, economic turmoil, economic downswings, global downturn, and financial meltdown. The crisis is termed 'the current' to distinguish it from a similar crisis that was experienced in the 1930s that resulted into the Great Depression. The crisis is manifesting itself in form of severe credit, banking, currency, and trade crisis which emerged in September 2008. Some background financial market events dating from July 2007 however, show that the credit crisis is the result of sub-prime mortgage crisis. It is believed however that there are a number of economic problems during the late 2000s that formed the basis of the current crisis.

Akbar (2008) correctly argues that the current global financial crisis is an ongoing major financial crisis. The crisis became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States-based financial firms including Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street.

The underlying causes leading to the crisis had been reported for many months before September 2008, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the sub-prime mortgage crisis. See Akbar (ibid), Evans-Pritchard (2007), The Economist (15th May and 22nd May, 2008). The failures of large financial institutions in the United States rapidly evolved into a global crisis resulting in a number of European bank failures and declines in various stock indexes, and large reductions in the market value of stock (Norris: 2008) and commodities worldwide (Evans-Pritchard, ibid). The collapse of Lehman Brothers in September 2008 when it filed for bankruptcy was a symbol of the global financial crisis. Broadly, it is seen that lack of adequate regulation (laisser-faire) of the financial markets by the appropriate authorities in the US is the major explanation behind this crisis.

b) General Impacts of the crisis

The crisis is having many and far-reaching direct and indirect and short-term and long-term impacts across the globe. So far however, given the source and nature of crisis it is the developed countries that have been more affected than the developing ones. However, the impacts of the crisis are continuously unfolding.

The actual extent of impacts of the crisis will depend on a number of issues. The issues include but are not limited to the degree to which a particular country is integrated into the dynamics of global investment flows, expanded trade, information technology and vibrant financial security arrangements. It will also depend on the extent to which a country is marginalized from the dynamic processes above. The kinds of policies that will be put in place by individual governments independently and in collaboration with the global community to solve and mitigate the impacts of the global economic downturn will determine inter alia, the severity and length of the crisis.

Generally, the crisis has led to a liquidity problem and the de-leveraging of financial institutions especially in the United States and Europe, which further

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accelerated the liquidity crisis. It is causing fears and declining sentiments in the market. It is ongoing and continues to change, evolving at the close of October 2008 into a currency crisis with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc. This in turn is leading many emergent economies to seek aid from the International Monetary Fund. (Landler: 2008) and Fackler (2008).

Most developing countries including Tanzania, are dependent on commodities for import or export. The impacts of the crisis in these countries are likely to be profound and far-reaching. Commodity-dependent economies are exposed to considerable external shocks stemming from price booms and busts in international commodity markets. UNCTAD (2008) reports that uncertainty and instability in international financial, currency and commodity markets, coupled with doubts about the direction of monetary policy in some major developed countries, are contributing to a gloomy outlook for the world economy and could present considerable risks for the developing world.

Among other things, Tanzania depends on the production and (for domestic and export markets) consumption (from domestic and foreign sources) of such commodities as agricultural, mineral and fuel commodities. Tanzania therefore stands to be affected by the crisis through its dependency on commodities production, export, imports and consumption.

Raja (2008) argues that market liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets, which fail to transmit reliable price signals for commodity producers. In recent years, the global economic policy environment seems to have become more favorable to fresh thinking about the need for multilateral actions against the negative impacts of large commodity price fluctuations on development and macroeconomic stability in the world economy.

Other general impacts of the crisis include reduced aggregate demand of goods and services across the globe. This is due to limited liquidity and related problems such as all-times low consumer sentiments that are emanating from the crisis. The reduced aggregate demand in turn is leading to reduced production of goods and services with the necessary result of reducing demand for and employment of factors of production including labour. The implications of reduced employment of factor inputs include reduced incomes to the factors and their owners in general and reduced standard of living and possibility of vulnerability to poverty for labour in particular. In some countries, migrant workers, (foreign labour) are likely to suffer more by being the first to be laid-off. This will have many and far-reaching implications on the countries and individuals dependent on transfers from migrant workers in form of remittances.

Some specific impacts of the crisis that have been observed and recorded so far include a loss of over 2,500,000 jobs in the US in 2008 where unemployment has reached the 7.2% mark and may move to double digits. The current unemployment figure is the highest in the past 15 years. Other observed tendencies in the US include situations where the unemployed are giving up in looking for jobs as the chances to get one are slim. Other impacts of the crisis include dismal sales in stores; downsizing firms and declining financial markets and stocks.

c) The Impacts of the crisis in Africa

It has been wrongly argued and expected that Africa's generally weak integration with the rest of the global economy may mean that many African countries including Tanzania, will not be affected by the crisis, at least not initially. The unfolding situation in Africa shows that the continent is already being affected by the crisis.

In the long run, it can be expected that foreign investment in Africa will be reduced as the credit squeeze takes hold. Furthermore, foreign aid and its effectiveness, which are important for a number of African countries including Tanzania are likely to diminish. Partly this is likely to be attributed to the fact that some donor countries and development partners for a number of African countries are affected by the crisis. The domestic sources of the aid funds in the donor countries (mainly tax payers' money) may no longer be as available as hither-to. In the event that the funds will be available the donor may be obliged to use the same to address the impacts of the crisis in their countries or group of countries. European Union (EU) donor countries for example may have as a priority to bail out their own economies first, fellow EU countries second and developing poor countries as the third priority. Among other things, the eight Millennium Development Goals (MDGs) are likely to be negatively affected and not be attained partly as a result of the crisis.

In recent years, there has been more interest in Africa from Asian countries such as China and India. As the financial crisis is hitting the Western nations the hardest, Africa may yet enjoy increased trade with Asia for a while.

African countries could face increasing pressure for debt repayment, however. As the crisis gets deeper and the international institutions and western banks that have lent money to Africa need to shore up their reserves more, one way could be to demand debt repayment. This could cause further cuts in social services such as health and education, which have already been reduced in Africa due to crises and policies from previous eras. Any aggressive demands of debt repayment will make the situation in most African countries all the more worrisome.

The impacts of the crisis on the other continents that Africa deals with, will affect the continent indirectly. For example, African countries that trade with Latin America are likely to be highly affected. This is because much of Latin America depends on trade with the United States (which absorbs half of its exports). As such Latin America will also feel the effect of the US financial crisis and slower growth in Latin America is expected. This will affect the African countries that trade with Latin America. Similar effects will be experienced by countries that trade with Asia. Growth in China for example is not likely to be in the double digit region. This will affect African countries transacting with this hitherto double-digit growing economy.

Generally however, the African continent, its countries and people in them will be negatively affected by the crisis through a number of mechanisms. These mechanisms include reduced export of goods and services including reduced tourism inflows. This will lead to reduced foreign currency scarcity and depreciation of local currencies. The Balance of Payment (BoP) account deficits will increase and countries' foreign reserves will decline. Inter alia, this will lead to a reduced capacity to support imports by these countries.

As a result of reduced exports of goods and services there will be reduced domestic production of the same. This will necessarily lead to reduced employment and remuneration and compensation of such factors of production like labour, land, capital and entrepreneurship. As a result the owners of such factor inputs – especially unskilled, informal, geographically and occupationally immobile labour (especially women and those relatively old) - will be at the verge of being immersed into poverty.

Other general mechanisms through which the African countries in general and Tanzania in particular will be affected by the crisis include reduced remittances from migrant workers and other sons and daughters in the Diaspora; reduction in ODA; reduction in investments inflows in general and Foreign Direct Investments (FDIs) and portfolio investments in particular; reduced possible sources of borrowing and possibilities of been obliged to repay external debts and/or lack of or reduced debt cancellations by creditor countries and institutions. These countries may also be negatively impacted by the crisis through higher interest rates and a withdrawal of equity and lending from the private sector.

Other possible impacts of the crisis are essentially none-economic but will have economic implications. These include social and political challenges including protests and clashes; social problems such as marriage crunch and divorces as a result of real and/or potential unemployment; decisions on having or not having children that will affect demographic structures and have social economic impacts in the short and long run including more unemployment in children and related industries. However, unemployment can lead to more children as a result of couples having more time at home that can increase the possibility of more sexual intercourses that may result into more pregnancies and children. This in turn can be good for the economy in general in the long run and for children-driven economic activities in the short run.

d) General impacts of the crisis in Tanzania

Due to the crisis the social, economic and possibly political situation in Tanzania – as is likely to be the case in many countries - will be more austere than ever before. This is because the impacts of the global financial crisis will be felt more deeply.

It is to be understood that the full effects of the global financial crisis may take time to be felt in a country like Tanzania. Tanzania, as other developing countries, is likely to suffer more from the second round-effects of the crisis (developed countries started to suffer from the first round effects). The negative impacts are likely to be felt in various direct and indirect ways. Whereas some of the effects will be short-term, others will be long term in nature. These impacts include but are not limited to reduced employment, reduced foreign exchange earnings, reduced Foreign Direct Investment (FDI) inflows and reduced economic growth among others. These impacts have been discussed at length in Ngowi (2010. This paper focuses on the impacts of the 2008 crisis on Official Development Assistance (ODA).

IV. Impacts of the Crisis on Official Development Assistance (ODA)

The Organisation for Economic Cooperation and Development (OECD) – Development Assistance Committee generally defines ODA as those flows to eligible ODA recipients or multilateral institutions that are administered with the promotion of the economic development and welfare of developing countries as its main objective.

Generally, ODA or foreign aid, consists of loans, grants, technical assistance and other forms of cooperation extended by governments to developing countries. A significant proportion of official development assistance is aimed at promoting sustainable development in poorer countries, particularly through natural resource conservation, environmental protection and population programs.

The Human Development Report (HDR) 2007/2008 gives a list of OECD-Development Assistance Committee (DAC) countries that are makes some expenditure on ODA. These include Norway, Australia, Canada, Ireland, Sweden, Switzerland, Japan, Netherlands, France, Finland, United States, Spain, Denmark, Austria, United Kingdom, Belgium, Luxembourg, New Zealand, Italy, Germany, Greece and Portugal

Some non-DAC countries and areas also provide ODA. According to OECD-DAC net ODA disbursed in 2005 by Taiwan Province of China, Czech Republic, Hungary, Iceland, Israel, Republic of Korea, Kuwait, Poland, Saudi Arabia, Slovakia, Turkey, United Arab Emirates and other small donors, including Estonia, Latvia, Lithuania and Slovenia totaled US$3,231 million. China also provides aid but does not disclose the amount. All of the countries listed above have been affected differently by the crisis. Therefore, there is a possibility of declining ODA because the source countries have been affected by the crisis.

Ringer (2008), making reference to the Organization for Economic Cooperation and Development (OECD) reports that global ODA from all donors for 2007 was $117.576 billion. The European Union (EU) and its 27 member states are by far the largest ODA providers, supplying half the global amount. Because of a downward trend, their ODA fell to 46.1 billion Euros ($59.4 billion) or 0.38 percent of Gross National Income (GNI) in 2007, down from 47.7 billion Euros ($61.4 billion), or 0.41 percent of GNI, in 2006.

Ikome (2008) correctly points out that ODA is a useful tool for the reduction of poverty and increasing prospects for achieving sustainable development. Over the years, African governments have relied on foreign aid to provide services to their people.

Tanzania is among the countries that depend heavily on ODA) for its development in general and budget in particular. Tanzania's national budget has been approximately donor funded through bilateral and multilateral ODA to the tunes of 40%.

The crisis is likely to lead to reduced ODA flows to the country. As a result of the crisis, some donor countries and development partners may reduce or even stop their financial contributions to developing countries including Tanzania. This is because they may be forced to concentrate in rescuing their own economies first through various strategies including bail out plans and economic stimuli packages. This implies less ODA for a country like Tanzania.

The reduced ODA will affect this aid-dependent country severely and deepen the negative impacts of the crisis. If the promised ODA will not be forthcoming in the remaining part of the 2008/09 financial year it means that a number of recurrent and development expenditure will go unfunded with a number of consequent negative implications.

a) Impacts of the Crisis on ODA

"*We are deeply concerned about the prospects for ODA, …in past periods of market turmoil and recession, global ODA has on some occasions fallen up to 40 percent from established trends*[1]*.*": Brett House, UN Development Programme (UNDP) senior economist.

"*The concern that we hold is that not only the EU states but also the broader donor community become very inward-looking, in the sense of their home policy, to an extent understandably, because they now have to deal with the economic impact on the ground*": The European Commission (EC) Humanitarian Aid and Development, in Ringer (2008)

"*The new challenge concerns ODA and whether rich countries will still meet the target of 0.7% of GDP by 2015*": Ringer (2008)

The quotations above indicate the worries and concerns on the impacts of the global economic crisis on Official Development Assistance (ODA).

Deeper impacts of the crisis on ODA flows to Tanzania may be observed and experienced from the 2009/10 financial year. This is because some donors may not give pledges to in the context of both Direct Budget Support (DBS) and project funding as a result of the crisis. This will deepen the impacts of the crisis outlined above.

It is important to see the direct relationship between the economic crisis and possibilities of reduced ODA flows. ODA funds accrue from donor countries' tax payers' money. This tax is collected from various sources in the process of production of goods and services. With the crisis, we are witnessing a global recession. This is a situation of reduced level of economic activities including production and consumption of goods and services. This reduction by itself will necessarily reduce the amount of taxes that donor and other countries are going to collect. Therefore the donor countries' disposable national incomes from which some funds could be set aside as ODA will be reduced.

The other way in which ODA may be reduced is through reduced tax revenues due to possible expansionary fiscal policies that may be applied by these countries as part of the strategies to solve the crisis. Among the fiscal policy instruments that may be used include reduced tax rates and tax multiplicities. This will lead to collection of less tax revenues and availability of the same for ODA purposes.

Even the reduced disposable national income described above will partly be devoted to addressing the global financial crisis in then donor countries' economies. The amount available for ODA purposes therefore will be reduced if available at all.

[1] Ringer (2008), argues that the crisis is expected to have a severe impact on humanitarian funding, with some analysts projecting cuts in ODA of up to 30% or more.

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ODA from multilateral organizations such as the World Bank and United Nations agencies may also be substantially reduced as a result of member countries' failure to contribute into these funds due to the crisis. Both bilateral and multilateral ODAs therefore are at risk. The impacts of the same for a donor dependent economy like that of Tanzania are many, far-reaching and profound.

As noted in Osakwe (2008), it may be too early to know the exact magnitude and the potential impact of the current economic crisis. However, it is clear that the crisis will have short as well as medium-term effects, which may differ in magnitude depending on how long the crisis lasts. The impacts will vary across countries depending on their production and export structure, exposure to the international financial system, as well as capacity to cushion the potential negative effects of the crisis.

The short-run effects on Sub Sahara Africa (SSA) including Tanzania will be relatively small as most countries in the region are de-linked from the international financial system. The medium-term effects will depend on four key factors (Osakwe: ibid). The first is the degree to which the crisis leads to a severe and protracted recession in the US and Europe, which will certainly have a negative effect on other industrial countries given the interdependence of these economies through trade and foreign investment. This will in turn have a contagious effect on African countries through a number of channels including ODA. Tanzania is not an exception in this.

In the context of ODA, the medium-term effect of the crisis will depend on what happens to ODA flows to recipient countries. If the donor countries respond to the economic slowdown by reducing ODA flows, this will deepen the potential impact of the crisis on recipient economies. This is especially so for economies in Sub Sahara Africa (SSA) because they heavily rely on ODA to finance their budgets. Reduced ODA will further reduce the fiscal space available to recipient countries to cushion the impact of the crisis.

In a Policy Dialogue organised with the EPC - Sasakawa Peace Foundation (SPF), it was argued that the current crisis, among other things, will result in cutbacks in ODA, making it more difficult for countries to meet the Millennium Development Goals (MDGs. In Ringer (2008) it is argued that it is now unlikely that the MDGs will be achieved, as OECD countries (with the exception of the Netherlands and Scandinavian countries) have failed to live up to their ODA commitments.

Traditional donors, like the United States, the Scandinavian countries, the UK and other European Union countries are among the most-hardest-hit by the crisis. According to Ikome (2008), the donor countries have become further constrained from readily releasing funds earmarked for development assistance, particularly to Africa. Concerns are that they will become compelled to become more inward-looking, directing more resources to address domestic challenges. These donors are looking to the emerging economies of China, India and the Gulf states for liquidity. This implies that the traditional donors have liquidity problem and may therefore not be in a position to fulfill their ODA commitments or make new ones unless the crisis ends. The outcome would be shrinking ODA which would have a direct impact on the potential to achieve the Millennium Development Goals (MDGs), which are currently under funded by over $ 50 billion.

Ringer (2008) informs that official government aid is the main funding source for most UN agencies, although less so for Non Governmental Organization (NGOs). For example, ODA accounted for more than 70 percent of the UN Children's Fund (UNICEF) budget of US$3 billion in 2007, while Concern Worldwide received 48 percent of its 2007 budget of $116.3 million Euros ($150 million) from governments and co-funders, 48 percent from general donations and the private sector, and the rest in kind.

Based on past recessions however, one may argue that the current crisis may not have severe impacts in form of reduced ODA. For instance, US funding rose in both 2001 and 2002, despite the eight-month recession in 2001 linked to the dot-com bust. According to the UN Development Fund for Women (UNIFEM), the 2001 recession had no negative impacts on its ODA budgets. But one needs to understand that the current crisis cannot be compared to the 2001 in magnitude and impacts.

Ringer (ibid), citing the Center for Global Development (CGD) - a Washington think-tank – argues that after each previous financial crisis in a donor country since 1970, the country's aid has declined. Finland's aid fell 62% during its economic crisis in the early 1990s, while Japan's declined by 44% during its decade-long slump.

Ringer (ibid) citing UN Office for the Coordination of Humanitarian Affairs (OCHA), reports that no UN agency has yet reported a slowdown in contributions, and no clear idea has yet been formed on the potential impact.

b) Some Optimism for Increased ODA Despite the Crisis

Besides the relevant worries and concerns on the impacts of the crisis on ODA, there are some emerging optimism that the crisis may not have negative impacts on ODA.

According to Ringer (2008), some governments are pledging to stand by their commitments. Among these include Norway whose overall humanitarian assistance was 2.459 billion Krone ($425 million) in 2007, with 2.588 billion ($447 million) in 2008, and 2.445 billion ($422 million) in 2009. The lower amount in 2009 is said to be because of a technical budgetary change.

Ringer (ibid) citing the Foreign Ministry's senior adviser for humanitarian affairs, reports that:

"The total Norwegian development aid budget, including humanitarian assistance, will in 2009 reach 1 percent of GNI for the first time. There is broad consensus in the Norwegian population and across party lines that Norway shall be a substantial and predictable humanitarian donor. Unless Parliament decides otherwise when the Government's budget comes to a vote in December, we do not foresee that cutbacks will become necessary."

Norway is one of the five countries that allocate over 0.7 per cent of its annual gross national income (GNI) to ODA, and its aim is to increase this amount to 1 per cent. In 2005 Norway's ODA amounted to about NOK 17.9 billion (approx. EUR 2.23 billion), which is approximately 0.94 per cent of GNI. In 2004, this comprised approximately 47 per cent in purely bilateral assistance, 30 per cent in purely multilateral assistance, 17.7 per cent in earmarked assistance channeled through international organisations and programmes, and 5.3 per cent on administration.

Norway gives development assistance to a large number of countries. It has selected seven main partner countries to which it provides broad-based, in-depth, long-term assistance. These countries are Malawi, Mozambique, Tanzania, Uganda and Zambia in Africa, and Bangladesh and Nepal in Asia. In 2004 development assistance to these countries was as follows (in NOK thousands)

Table 1: Norway's Main Partner Countries and Norwegian ODA Flow in 2004

Malawi	183 090 (EUR 21.7 mill)
Mozambique	411 509 (EUR 48.8 mill)
Tanzania	401 637 (EUR 47.7 mill)
Uganda	280 842 (EUR 33.3)
Zambia	251 801 (EUR 29.9 mill)
Bangladesh	161 325 (EUR 19.1 mill)
Nepal	155 169 (EUR 18.4 mill)

It can be seen from the table that Tanzania was the second largest recipient of Norwegian ODA after Mozambique.

Other countries are recipients of large amounts of Norwegian development assistance as well, not least for humanitarian reasons. In 2004, Afghanistan received approximately NOK 456.4 million, Sudan NOK 385.4 million, and the Palestinian areas NOK 362,8 million. Source : http://www.norway.go.tz/misc/print.aspx?article ={b1bc3a29-ef4e-4bac-9935-c839f5fc04c9} In 2008, Denmark increased its contributions and reserve funding by some 7 percent over 2007. According to Denmark's Foreign Ministry humanitarian assistance "We do not expect the global economic crisis to influence humanitarian aid in the future"

The US with $21.752 billion in ODA in 2007 is the second-largest contributor. (Ringer: ibid). Despite the crisis and its severe impact in the US: "America is committed - and America must stay committed - to international development for reasons that remain true regardless of the ebb and flow of the markets": The then US President George W Bush, September 2008.

Despite the government change, there are reasons and optimism to expect US's increased ODA. This is because during the presidential campaign, the current president Barack Obama promised to double US annual foreign assistance from $25 billion in 2008 to $50 billion. It is important to note that the vice-president Joe Biden remarked in October 2008 that this commitment (of $50 billion) would probably be slowed down due to the current crisis.

ODA from Canada however may not be forthcoming to recipient countries. In 1998, the most recent year for which the OECD had data, Canada dedicated 0.29% of its GDP to official development assistance. In comparison, Denmark and Norway devoted 0.99% and 0.91% of their GDP, respectively, to ODA. Internationally, 0.7% is seen as a threshold that all industrialized nations should surpass. Canadian Prime Ministers have promised to raise Canadian assistance to this level but the promises have never been fulfilled. The Netherlands, Norway, Denmark and Sweden are all above this threshold, and have consistently surpassed it for the past twenty years.

Since 1980, the percentage of GDP that Canada dedicates to ODA has fallen by 32.6%. Only the United States, Australia and Germany have cut official development assistance more sharply than Canada. This reality increases concerns, worries and possibilities of reduced ODA in the aftermath of the crisis. In contrast, nine OECD nations increased their percentage of GDP dedicated to ODA between 1980 and 1998. The countries include Austria, Denmark, Finland, Ireland, Italy, Luxembourg, Norway, Spain and Switzerland.

V. Policy Responses to Mitigate the Impacts of Possible Reduction in ODA

Developed countries have a role to play in helping African countries respond to the crisis as well. They must resist the temptation to reduce ODA and instead meet their promise to double aid to Africa by 2010. More assistance will enable African countries to offset the impact of any reversal in private capital flows and reduce the likelihood of a sharp decline in spending on social sectors that would have dire consequences for poverty reduction.

The EPC – Sasakawa Peace Foundation dialogue correctly called for the EU to help to mitigate the impact of the downturn by strengthening international coordination to resist calls for a reduction in ODA. As all ODA loans and grants have strings attached and part of these funds are ploughed back to the source, without debt relief and fairer trade terms ODA will continue to have shortcomings.

Rich countries should respond to the crisis by strengthening bilateral partnerships and programming instruments and refocusing their external policies. Financial instruments need to be better coordinated, with more coherence between donor policies. They must contribute to the reform of the International Financial Institutions, and be ready to increase resources to support lending to third countries.

Developed countries must stimulate the world economy for the benefit of the poorest, and ultimately the benefit of all. The need for renewed ODA commitments by the aid community because of instead and not in spite of the crisis cannot be over emphasized.

Challenging and difficulty as it may be, the way out of the possible reduction in ODA is to avoid factoring-in donor funds in the country's budget. This will be challenging and a conflict in implementing the other needed approaches to mitigate the crisis, especially surplus budget and expansionary fiscal policies. To offset the financing gap that may be left by reduced donor funding one needs to increase the size of domestic revenue collection. This can be achieved in a number of ways including but not limited to widening the tax base and/or increasing tax rates. Widening tax base and increasing tax rates however will necessarily be constrained by the looming recession and will conflicting with the recommended and needed expansionary fiscal policy in form of reduced tax rates. The best remaining option seems to optimal revenue collection and prudent use of the same.

Although somehow late, Tanzania has an option of studying and appropriately applying the lessons from its neigbouring Kenya which has not been factoring-in donor funds in its budget for a number of years.

Other necessary options to mitigate the impacts of the possible reduction in ODA include the alternative look East policy. In this strategy the country should consider looking for ODA to none-traditional donors that may not be as negatively impacted by the crisis as the traditional western donors. Among such none traditional donors include China and the rich oil exporting Arab economies.

Staying constantly alert, vigilant and involved in all new and unfolding developments and possible solutions out of the crisis at international level is very important. Among the current such developments in the context of addressing possible decline in ODA include the 15th November 2008 Washing summit of the Group of 20 (G-20). The summit aimed at promoting dialogue between advanced and emerging countries on key issues regarding economic growth and stability of the financial system. Another similar development is the four-day November to December 2008 United Nations (UN) conference in Doha on the global responses to the global crisis. The UN conference planed a globally coordinated response to the financial crisis to ensure the well-being of millions worldwide, especially the poor. It also focused on ensuring sufficient financing to meet key development goals amid mounting concern about the impact of the current global economic slowdown on poor nations.

The UN meeting among other things, recognized the need for a truly global stimulus plan that meets the needs of emerging economies and developing countries. This includes protecting the poorest, and not reneging on commitments regarding ODA, which remains a crucial part of development finance for many countries. It also included ensuring resources to help countries meet the eight MDGs.

The World Bank (WB) has correctly called on developed countries to boost aid to developing countries as one of strategies of global fight against the impacts of the crisis. They have been called upon to meet their previous commitments to debt relief and scaled-up aid.

The major focus of this work has been on the impacts of the 2008 economic crisis in Tanzania in general and on ODA in particular. It is concluded in this work that the crisis has been real and relevant for Tanzania. The country felt the indirect impacts of the crisis in its economy in general. In the context of ODA however, most impacts remain potential rather than real. This is mainly because the crisis began when most donors had given their commitments and started implementing the same. However, with the Euro zone crisis that poses possibilities for a double-dip recession, the impacts of the crisis on ODA are still relevant.

On whether the donors will be both able and willing to keep on giving ODA, the 2008 crisis and the Euro zone crisis that followed it notwithstanding, will be known in future Tanzania's financial years in general and in the Direct Budget Support (DBS) pledges and actual funds disbursement in particular. Most of the discussions in this paper necessarily remain at theoretical and speculative level. It is only after the donor pledges and actual funds disbursement in Tanzania that the actual and quantitative impacts of the crisis on ODA to the country can be observed, measured and documented. However, knowing the possible outcomes of the crisis on ODA and how to get prepared to cope and mitigate the same as documented in this paper is very essential.

VI. Policy Implications

There are several policy implications that emanate from the discussions made in this paper. The implications include the need of the Government of Tanzania to make use of opportunities offered by ILO in addressing the employment effects of the global crisis. Of particular relevance here is the ILO's Decent Work Agenda.

Given its global leadership in the world of work, ILO is expected to help the country to mitigate the impact of the current global financial crisis in general but on employment in particular.

Both the government and ILO need to put the decent work for all agenda high in their priorities now than ever. This is because the agenda is essential in meeting the various aspirations of workers that at the same time are put at risk by the crisis.

VII. Implications for Further Research

The crisis is still in its infancy stage of development. Its impacts are and will still continue to unfold as time passes. There is a need for more detailed, field-based, empirical studies on the crisis in general and on its impacts on ODA in particular as partly outlined in this work. The unfolding realities of the crisis across the globe should be documented and form a basis for comparison and sustainable solutions.

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